REBUILDING AN INDUSTRY

Worth an estimated €15bn in 2016 and employing over 140,000 workers, the Irish construction industry is poised for further growth over the next few years.

“For the first time in almost a decade, the Irish construction industry can look ahead and see potential growth up to 2020. A recent economic report commissioned by CIF forecast an average annual growth of 9% for the construction industry, reaching €20bn in output by 2020,” says Tom Parlon, Director General of the Construction Industry Federation (CIF).

“In general, the industry is experiencing a strong recovery, growing from €12bn to €15bn throughout 2016. According to the Construction Information Services’ recent Construction Opportunities Report, projects to the value of almost €19bn are in the pipeline over the next 12 months,” he says.

“While there are positive indicators, there are still some regions in the country awaiting a significant increase in construction activity. Joining the dots for Government and the EU between funding for construction companies, the economic benefits of infrastructure and balanced regional development will be a key objective for the CIF’s advocacy efforts throughout 2017,” he adds.

As a vital component of the economy, he says the sector also has the potential to create a significant number of jobs over the next three years.

“The industry now employs around 140,000 people directly and supports another 50,000 indirectly. We have been adding 1,000 additional workers per month in the industry. By 2018, at the current rate, we will have added 50,000 workers since the trough of 2013.”

The recent report that was commissioned by the CIF, and carried out by consultants DKM, indicated the Government’s own housing, infrastructure, and foreign direct investment strategies will play a significant role in helping achieve the growth forecasts.

“DKM forecasts sufficient demand for construction requiring 112,000 additional workers up to 2020. The Government’s €42bn Capital Expenditure Programme and the Rebuilding Ireland Strategy, which has an annual housing output target of 25,000, will provide sustainable growth across the construction industry.”

While the growth prospects for the construction industry are strong, it also faces a number of challenges. “The industry continues to undergo significant structural changes in this post-recessionary period with many hard lessons having been learned. The employment profile has changed with...”
direct employment only recovering slowly. As a result, there has been major growth in the specialist and sub-contracting sector. The recession forced about a quarter of the industry’s 14,500 firms out of business. This leaves us with nearly 50,000 construction and construction related enterprises across the economy,” says Tom.

“The industry also remains a very fragmented sector, with 98% of all enterprises employing less than 10 employees. There’s also an estimated 46,000 people who are self-employed working within the industry,” he says.

“All the recent positivity around the industry is dependent on the Government putting in place some key policies. Measures in the housebuilding arena such as the €200m fund to support essential infrastructure, into sites to ready them for house-building are welcome.

“However, we are predicting a significant threat to our recovery, job creation and regional development because of a looming infrastructure gap. The Government must secure permission to invest more money in productive infrastructure such as roads, rail, broadband and flood defences. The EU’s fiscal constraints currently hamstring them even at a time when there is EU funding available at cheap rates and when the Commission has identified infrastructure as a significant threat to Ireland’s long-term growth.”

In terms of the Government’s own Public Capital Programme, he points out that there may be an additional €5bn that it has at its disposal but urges caution about how it should be spent.

“This must be invested wisely in the productive infrastructure that yields huge returns in terms of competitiveness, job creation and economic growth. Remember every €1bn invested in infrastructure generates 10,000-12,000 construction jobs. Unfortunately, our long-term investment in infrastructure has dropped from 5% to under 2% of GDP since the mid-2000s and we are now currently last in the EU,” he says.

“At a micro-level, however, other challenges exist, according to Neil McBeth, director of the Dublin and Omagh-based firm of chartered quantity surveyors, Conway McBeth.

“The current upward trend in construction output has put significant pressure on the Irish work force both on the professional side of the business and the tradesmen physically delivering the product. However, the tide has turned and Ireland saw the first shift back towards inward migration in 2016 since 2009. The return to growth for construction industry is obviously encouraging the professionals and tradesmen alike to return from the likes of Australia, Canada or Dubai,” he says.

He points out that the increased construction output over the past 24 months has also given rise to steady year-on-year tender price inflation of between 5-6% and this looks set to continue throughout 2017.

“This construction inflation coupled with the cost of acquiring suitable development land puts further pressure on the financial validity of projects particularly in the apartment and private rental sector,” says Neil.

He also shares the CIF’s concerns that too much of construction sector’s output is focused on Dublin and Leinster:

“It is imperative that the Government recognises the importance of investment in infrastructure and housing to coincide with the recovery growing in the North, South and Western regions of the country,” he adds.

According to Tom Parlon, the performance of other specific sub-sectors ultimately determine the direction of the industry.

“The housing sector is expected to grow strongly from 2018 onwards as several policy initiatives outlined in the Government’s Rebuilding Ireland strategy take effect. The sector’s target is 25,000 housing units per annum and we are currently producing close to 15,000 this year with value output nearly doubling by 2020 at constant prices,” he says.

“The private non-residential sector, which is primarily office space, has a strong pipeline up to 2018 as Dublin and Cork continue to ramp up on office space. After 2018, the pipeline is less clear but there might be further opportunities in this sector depending on prevailing global conditions,” he adds.

“An area for concern is the infrastructure pipeline after 2017. Our Civil Engineering sector is experiencing uncertainty about the flow of projects in the pipeline as the Government is struggling to deliver sufficient capital expenditure to deliver key infrastructure,” he says.

To conclude, he says that the industry currently accounts for 7% GNP and the widely-accepted level in a developed, but growing economy is 12-15%.

“The CIF believes that this gap can be filled by supporting regional construction companies to deliver housing and infrastructure outside the Greater Dublin area. However, to finally join up the dots, our analysis shows that construction companies are not or are not able to access finance at sufficient levels to invest in their businesses and drive necessary construction activity outside the greater Dublin area. The CIF looks forward to working with its corporate partner AIB to address this issue throughout 2017 to unlock the huge potential the sector has to benefit the wider economy,” he says.
SUPPORTING THE IRISH CONSTRUCTION INDUSTRY

AIB is playing a leading role in providing the Irish construction industry with a range of financial products and services that will help it develop and expand.

On the back of strong economic growth over the past number of years, the outlook for the Irish construction sector continues to look positive as demand for housing and commercial real estate outstrips supply and spending on major infrastructural projects gains momentum.

This presents both opportunities for the constituent elements of the construction industry as well as some considerable challenges, not just for the industry itself but for the wider economic landscape.

“The outlook is positive and spending commitments by the Government, in particular, will play an important role in the growth of the industry over the coming years.”

In terms of commercial development, there has been a substantial increase in activity over the last year and indicators are for more growth in this sector. We are working with our developer customers on a number of large scale projects at the moment to deliver new homes into the market,” he adds.

But the construction sector is not without its challenges cautions Brendan Crowley.

“The downturn obviously created a number of challenges in the sector, all of which have had a knock-on effect, not just in terms of a shortage of housing or infrastructure, but also in terms of the shortage of skilled labour. A lot of good skilled labour left the country and there was a drop in the number of apprenticeships being offered. This has had a 3-4 year downstream effect on the sector,” he says.

“Another key issue was that the companies that emerged from the downturn did not replace their assets, particularly the plant and equipment they owned. This has brought its own challenges for some companies as things like downtime became an issue and repair and maintenance bills started to increase. For many of them, there was no line of sight in terms of when the market would pick up again, so they couldn’t factor into the equation any new plant and machinery,” says Brendan.

“But thankfully the industry is now recovering and companies have started to replace assets and AIB is now witnessing a considerable pick-up in the demand for asset finance and is keen to support companies in all sub-sectors of the industry,” he adds.

“There are also opportunities for everyone involved in the construction sector, including those operating in the value chain on the supply side, whether they are operating in areas like quarrying, builders’ providers or supplying plant and machinery,” says Brendan.

He also points out that companies in the sector are now better equipped and informed when it comes to presenting important business plans and other detailed financial information that is required by lenders.

“The provision of good quality financial information including up to date audited accounts, a robust business plan, cashflow projections as well as management accounts, is key to getting any bank to support a lending proposition. Given the history of this sector good quality information is paramount,” he says.

“From AIB’s perspective, the bank is ready to lend to firms with viable projects in all sub-sectors of the construction industry and its value-chain, from owner/operators, SMEs right through to large corporates. The bank, as a pillar bank, has an economic and social obligation to continue to support it well into the future,” he concludes.

IRISH HOUSING COMPLETIONS

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Source: Dept. of Housing, forecasts from AIB ERU
By supporting developers and engineering firms, AIB is playing a vital role in addressing key construction industry issues such as restoring residential construction activity to sustainable levels.

AIB has always been very supportive of our business and has been flexible and approachable at all times,” he concludes. “The nature of contracting is when a large contract is won there is a significant upfront investment in plant and materials required, for which AIB has provided ongoing support. As our business grew we were supported by AIB in office and equipment acquisitions, along with funding the day to day running of the business.”

“Ours is a dynamic asset so it is vital that a developer’s bank is flexible and willing to adapt to its needs.”

“Our management and staff maintain a strong commitment to meeting client needs,” he says. “We focus on delivery of contracts safely, on time and with a strong emphasis on producing a quality finish.”

Current contracts include a design and build contract to deliver four new aircraft parking stands, installation of new twin fuel feeder pipeline to aircraft stands and redevelopment of the existing fuel storage facility at Dublin Airport.

The nature and type of construction contracts undertaken by Kilwex have changed in recent years, continues O’Connell. “We have completed design and build contracts, worked with managed contracts and in partnership with other contractors,” he says.

“In addition, communications have greatly changed within our industry. All communications are now conducted through email and cloud based data sharing facilities - storage and sorting of these communications is crucial to our business and as a result we have been implementing a cloud document control and storage system.”

Kilwex has been an AIB customer since the company was established 21 years ago and has been supported by the bank in a variety of ways in addition to funding the purchase of new plant and equipment, explains O’Connell. “We have also invested in new plant and equipment with the help of AIB. Our focus has been on purchasing the best and safest plant and equipment available and (where possible) those that are most environmentally friendly.”

“We focus on delivery of contracts safely, on time and with a strong emphasis on producing a quality finish.”

“Many new construction industry regulations have been introduced in recent years,” he explains. “The change that has probably caused most impact is the requirement to have residential properties fully designed prior to construction, moving certification from the end to the start of the construction process and bringing the residential market into line with the commercial property market. But in addition to the design of individual homes, we also continue to spend a lot of time on quality estate design and how the estate will be managed properly once the construction phase is complete.”

McGarrell Reilly Group has banked with AIB for more than three decades and the bank has supported its landmark Hansfield development of 600 units in Dublin 15, since work started in September 2014. “Hansfield was one of the first developments of this scale to be launched since the recession and having AIB on board as a funding partner from the outset was crucial,” says Walsh. “A housing development is a dynamic asset so it is vital that a developer’s bank is flexible and willing to adapt to the requirements of the site, AIB understands the flexibility required and has worked with us provide funding appropriate to the demand - in fact, I would say that it is evident that AIB has been quick to adapt and have invested significantly in resources so that they are right up to date with the changing requirements of new residential developments.”

Certain opinions and comments expressed in this Outlook Update do not necessarily reflect those of AIB. Lending Criteria, terms and conditions apply. Credit facilities are subject to repayment capacity and financial status and are not available to persons under 18 years of age. Security may be required. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland.

Darragh O’Connell, Director, Kilwex

“Nurturing the civil engineering sector will be a key factor in addressing the infrastructural deficit identified by the OECD. The sector currently faces a number of challenges, most notably a shortage of skilled workers and professionals that has led to wage inflation and possible difficulties meeting challenging contract programmes.

That is the view of Darragh O’Connell, director of civil engineering construction company Kilwex, which has operated as a main contractor for more than 20 years, working on infrastructural projects for public and private sector clients including Dublin Airport Authority, Dublin Port, IDA, ESB, UCD and local authorities.

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